

REPORT OF THE AUDITOR-GENERAL TO THE KWAZULU-NATAL PROVINCIAL LEGISLATURE AND THE COUNCIL ON MSINGA MUNICIPALITY

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I have audited the accompanying financial statements of the Msinga Municipality, which comprise the statement of financial position as at 30 June 2011, and the statement of financial performance, statement of changes in net assets, cash flow statement for the year then ended, a summary of significant accounting policies and other explanatory information as set out on pages 3 to 41.

Accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with the South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Local Government: Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2010 (Act No. 1 of 2010) (DoRA), and for such internal control as management determines necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor-General's responsibility

3. As required by section 188 of the Constitution of the Republic of South Africa, 1996 (Act No. 108 of 1996), section 4 of the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and section 126(3) of the MFMA, my responsibility is to express an opinion on these financial statements based on my audit.
4. I conducted my audit in accordance with International Standards on Auditing and *General Notice No. 1111 of 2010* issued in *Government Gazette No. 33872 of 15 December 2010*. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
5. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the municipality's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

6. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

7. In my opinion, the financial statements present fairly, in all material respects, the financial position of the Msinga Municipality as at 30 June 2011, and its financial performance and cash flows for the year then ended in accordance with SA Standards of GRAP and the requirements of the MFMA and DoRA.

Additional matters

8. I draw attention to the matters below. My opinion is not modified in respect of these matters:

Material inconsistencies in other information included in the annual report

9. I have not obtained the other information included in the annual report for my review and have not been able to identify any material inconsistencies with the financial statements.

Unaudited supplementary schedules

10. The supplementary information set out on pages 34 to 41 do not form part of the financial statements and is presented as additional information. I have not audited these schedules and, accordingly, I do not express an opinion thereon

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

11. In accordance with the PAA and in terms of *General Notice No. 1111 of 2010*, issued in *Government Gazette No. 33872 of 15 December 2010*, I include below my findings on the annual performance report as set out on pages 75 to 95 and material non-compliance with laws and regulations applicable to the municipality.

Predetermined objectives

Usefulness of information

12. The following criteria are relevant to the findings below:
- Measurability: Indicators are well defined and verifiable, and targets are specific, measurable and time bound
 - Consistency: The reported objectives, indicators and targets are consistent between the planning and reporting documents
13. The following audit findings relate to the above criteria:

Planned and reported targets are not measurable

14. For the selected objectives, 25% of the planned and reported targets were not measurable in identifying the required level of performance.

Changes to planned objectives, indicators and targets are not approved

15. Additional and different objectives, indicators and targets were reported on as opposed to those in the approved integrated development plan. These additional and different objectives, indicators and targets were not included in the approved budget and were not approved subsequent to the strategic planning process.

Compliance with laws and regulations

Audit committee

16. The audit committee did not function as appointed and therefore did not fulfil its responsibilities for the year under review, as required by section 166 of the MFMA.

Internal audit

17. The internal audit unit did not substantially fulfil its responsibilities for the year under review, as required by section 165(2) of the MFMA.

Procurement and contract management

18. The preference point system was not applied in all procurement of goods and services above R30 000 to R100 000, as required by section 2(a) of the Preferential Procurement Policy Framework, 2000 (Act No. 5 of 2000) and regulation 28(1)(a) of the Municipal Supply Chain Management Regulations of 30 May 2005.

Budgets

19. The municipality incurred expenditure that was not budgeted for and incurred expenditure in excess of the limits of the amounts provided for in the votes in the approved budget, in contravention of section 15 of the MFMA.

Annual financial statements

20. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 of the MFMA. Material misstatements of liabilities, expenditure and disclosure items identified by the auditors were subsequently corrected resulting in the financial statements receiving an unqualified audit opinion.

INTERNAL CONTROL

21. In accordance with the PAA and in terms of *General Notice No. 1111 of 2010*,

issued in *Government Gazette* No. 33872 of 15 December 2010, I considered internal control relevant to my audit, but not for the purpose of expressing an opinion on the effectiveness of internal control. The matters reported below are limited to the significant deficiencies that resulted in the findings on the annual performance report and the findings on compliance with laws and regulations included in this report.

Leadership

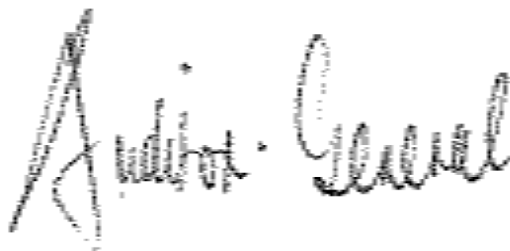
22. The accounting officer did not exercise effective oversight over policies and procedures regarding budgets, supply chain and performance management to enable and support understanding and execution of internal control objectives, processes and responsibilities.

Financial and performance management

23. Management did not implement controls over the preparation, review and reconciliation of the financial statements as well as the reported performance against predetermined objectives.

Governance

24. The municipality did not have an effective and functioning audit committee during the financial year under review. This also impacted on the effectiveness of internal audit.
25. The internal audit unit of the municipality did not fulfil its responsibilities of evaluating and monitoring responses to risks and providing assurance over the effectiveness of the overall internal control environment, including performance reporting and compliance with laws and regulations.

A handwritten signature in dark ink, appearing to read 'Andrius Gerasimavicius', is written in a cursive style.

Pietermaritzburg

30 November 2011